FUNDING & BENEFITS POLICY
Teachers' Retirement System

It is the mission of the Teachers' Retirement Board to promote long-term financial security for our membership while maintaining the stability of the fund.

This policy provides general guidelines and may not be applicable to all situations.

CONSTITUTIONAL/STATUTORY LIMITS

The Teachers' Retirement Board (TRB) is charged with administrating the system in accordance with the provisions of Title 19, Chapter, 20 of the Montana code annotated. The Board is required to approve or disapprove all expenditures of the system, prepare an annual actuarial valuation of the assets and liabilities of the system and perform other duties and functions as are required to properly administer and operate the retirement system. Board members are subject to a constitutional fiduciary duty to fund retirement benefits (Article VIII, Sections 1 & 15 of the Montana Constitution). The Board, the staff and the Legislature are prohibited from diverting the assets or the actuarially required contributions of the Retirement System to any other purpose. No Employee or member of the Retirement System may have an interest in plan assets, borrow or use fund assets, or act as surety, obligor or endorser on loans to or by the system.

The Montana Board of Investments (BOI) is charged to invest the assets of the Teachers' Retirement System in accordance with state law and the state Constitution. State law requires that the Board operate under the “prudent expert principle”. The Teachers' Retirement System has a long-term horizon well beyond normal market cycles. The goals and objectives of the BOI are included in the investment policy statement adopted by the Board of Investment for each individual fund. Objectives and constraints have been defined and approved by the Board of Investments for each individual pool under management.

FINANCIAL SOLVENCY

The Montana Constitution delineates the duties of the Board and assigns to the Board, as fiduciaries of system participants and their beneficiaries, the responsibility to establish all actuarial determinations, including actuarial assumptions. As such, it is the responsibility of the Board to report the financial solvency of the fund to the Legislature. To assist the Board in their analysis of the system’s solvency, an annual actuarial valuation will be prepared by an Enrolled Actuary. While the amortization period and funded ratio on any given date may not provide a complete measure of financial solvency, a trend, which results in increasing the amortization period or decreasing the funded ratio, may cause the Board to consider recommending funding enhancements. It is desirable that the amortization period decreases over time and that the funded ratio increase. A review of the actuarial valuation shall be conducted by an independent actuary at least every 5 years.

Whenever the amortization period of the unfunded liabilities for two consecutive valuations are projected to exceed 30 years based on the market value of assets, or the funded ratio is less than 85%, and the Board cannot reasonably anticipate that the amortization period would decline or the funded ratio improve without an increase in funding sources, it is the obligation of the Board to recommend to the legislature that funding be increased and/or liabilities be reduced.

The System does not currently meet the requirements of actuarial soundness because current contribution rates will not amortize the Unfunded Actuarial Accrued Liability (UAAL) over 30 years or less. To stay financially sound in the future, the System will need either: (1) future gains such as asset returns well over the actuarial assumption, (2) an increase in the employer contribution rate, (3) changes in future experience that reduce the funding stressors on the system, or a combination of all three. Contribution rate increases could be scheduled as either a one time event, or graded over a number of years.

The dramatic decline in domestic equity markets that occurred from 2000 through 2002 is the single largest factor influencing the recent growth in unfunded liabilities. From 2000 through 2002, domestic stocks lost about 40 percent of their value, the largest market decline since the Great Depression. As a result, the TRS funded ratio fell from 88.1 percent to about 73 percent as of July 1, 2005.

It is the goal of the Teachers' Retirement Board to secure passage of legislation during the 2007 regular legislative session that will actuarially fund the TRS. It is the ultimate goal of the TRB to eliminate the current Unfunded Actuarial Accrued Liability and to establish a Stabilization Reserve equal to at least 10% of the Actuarial Accrued Liability. Once the system has achieved this goal, any surplus funds that become available may be applied toward the cost of benefit enhancements and/or contribution reductions, provided, sufficient reserves are retained to reasonably allow for adverse experience and the contribution rates remain at least 1 percent above the normal cost.

BENEFIT ENHANCEMENTS/LEGISLATION

The Board’s position on proposed legislation will be made on a case-by-case basis using this policy, actuarial funding standards and the resources of the National Council on Teacher Retirement as decision guides. Benefit enhancements should be equitably allocated among active members and retirees with any increased cost distributed among the generation of employers, taxpayers, and employees who receive the greatest benefit. Proposed benefit enhancements must include additional funding sufficient to cover any increase in the normal cost and to amortize any increase in unfunded liabilities over a period not to exceed 25 years. In addition, as of the most recent actuarial valuation, the funded ratio must be 85% or greater before the Board will support legislation to enhance benefits. Legislation that would cause the amortization of unfunded liabilities to exceed 25 years may be opposed by the Board.

In 2001, the Legislature authorized the Board to increase the Guaranteed Annual Benefit Adjustment (GABA) from 1.5% to a maximum of 3.0%, provided any increase made by the Board would not cause the amortization period to exceed 25 years as of the most recent valuation. This action by the Legislature effectively committed all future actuarial gains to eventually funding a 3.0% GABA. Until the GABA has been increased to a maximum of 3.0%, any actuarial gains realized by the system cannot be used for any other purpose.

The Board recognizes the increased impact of asset returns, positive and negative, on a mature retirement system such as TRS. In view of the potential impact of asset returns, and in order to maintain a financially sound system, it is the goal of the Board to attain an amortization period of the UAAL at close to 15 years before increasing the GABA.

CHANGES TO THE FUNDING AND BENEFITS POLICY

Changes in this policy may be made at any Board meeting by a majority vote provided a quorum is present and provided that notice of the change has been proposed to the Board members 7 days prior to the meeting. At a minimum, this policy will be reviewed by the Board in each even numbered year.

CROSS REFERENCE GUIDE

Art VIII, § 13, Montana Constitution
Art VIII, § 15, Montana Constitution
Section 19-20-104, MCA
Section 19-20-201, MCA
Section 19-20-206, MCA
Section 19-20-501, MCA
Section 19-20-502, MCA
Section 19-20-701, MCA
Section 19-20-719, MCA

HISTORY

Adopted May 2002
Amended May 2006

/s/ Scott Dubbs — 5/19/2006
Chair, Teachers' Retirement Board — Date